

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SSO-00 NSCE-00 IO-10 TRSE-00 SAJ-01

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C O N F I D E N T I A L LISBON 3491

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SUBJ: ECONOMIC CONSIDERATIONS OF AFM DECLARATION

REF: LISBON 3479

SUMMARY: AFM DECLARATION EMPHASIZED BALANCE OF PAYMENTS
DEFICIT, UNEMPLOYMENT, AND DECLINING DOMESTIC PRODUCTION AS
THREE PRINCIPAL ECONOMIC PROBLEMS FACING PORTUGAL. IT CALLED
FOR TEMPORARY WORKER SACRIFICES, REORGANIZATION OF GOVERNMENTAL
STRUCTURE, AND PREPARATION OF TRANSITIONAL, THREE-YEAR DEVELOPMENT
PROGRAM. END SUMMARY

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1. JUNE 21 AFM DECLARATION (REFTEL) PLACED CONSIDERABLE EMPHASIS ON DETERIORATING ECONOMIC SITUATION. IT HIGHLIGHTED THREE MAJOR PROBLEMS FACING PORTUGUESE ECONOMY:

- A. BALANCE OF PAYMENTS DEFICIT THIS YEAR MAY REACH US\$1.2 BILLION COMPARED TO DEFICIT OF ABOUT US\$650 MILLION IN 1974. IMPORTS THIS YEAR MAY EXCEED EXPORTS BY AS MUCH AS US\$2 BILLION. BY END OF YEAR, PORTUGAL WILL HAVE EXHAUSTED ITS FOREIGN CURRENCY RESERVES, LEAVING ONLY ITS GOLD RESERVES.
- B. UNEMPLOYMENT HAS REACHED 250,000, EQUIVALENT TO 8 PERCENT OF THE NATION'S ACTIVE POPULATION.
- C. DECLINING DOMESTIC PRODUCTION, DESPITE PROJECTED RISE IN AGRICULTURAL OUTPUT, ENDANGERS NATIONAL INDEPENDENCE. IF CURRENT TREND PERSISTS, GNP THIS YEAR WILL BE ABOUT 6 PERCENT BELOW 1974.

2. DECLARATION DESCRIBED THESE CONDITIONS AS "VERY GRAVE," BUT NOT FRIGHTENING. A SOLUTION WILL TEMPORARILY REQUIRE WORKERS' SACRIFICES -- WAGES MAY HAVE TO BE LESS THAN "REAL NEEDS." PORTUGAL MUST LIMIT INTOLERABLE WAGE INCREASES; REDUCE IMPORTS; CONSTRAIN CONSUMPTION; AND INCREASE DOMESTIC PRODUCTION, ESPECIALLY OF FOODSTUFFS. REVOLUTIONARY COUNCIL AND REPRESENTATIVES OF COALITION PARTIES WILL DISCUSS TWO BASIC THEMES: 1) THE STRATEGY OF DEVELOPMENT; AND 2) THE STRUCTURE OF THE ECONOMIC SYSTEM. THESE DISCUSSIONS SHOULD BE CONCLUDED BY THE END OF JULY, PERMITTING THE PROMPT PREPARATION OF AN ECONOMIC TRANSITION PLAN FOR 1976-1978. THE STRATEGY OF DEVELOPMENT SHOULD ENCOMPASS THE FOLLOWING POINTS:

- A. ORGANIZED CONTROL OF PRODUCTION BY WORKERS;
- B. LOCAL MOBILIZATION FOR DEVELOPMENT;
- C. ORGANIZATION OF THE PLANNING SYSTEM;
- D. QUALITATIVE SUB-SYSTEMS OF THE ECONOMY IN TRANSITION (STATE SECTOR, PRIVATE SECTOR); AND
- E. POLICY TOWARD FOREIGN ECONOMIC ASSISTANCE, INSURING THAT NO NATION OR BLOC CAN USE ECONOMIC RELATIONS TO DOMINATE PORTUGAL.

3. ONE OF PRINCIPAL FEATURES OF DECLARATION IS PROMISED REFORM OF "EXTREMELY HEAVY AND BUREAUCRATIC" GOVERNMENT APPARATUS. PRINCIPALLY:

- A. ADMINISTRATIVE DECENTRALIZATION--REGIONAL PLANNING
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MADE WITH "PROGRESSIVE PARTICIPATION" BY POPULAR ORGANIZATIONS, ALTHOUGH STILL COORDINATED WITH CENTRAL GOVERNMENT. REGIONAL PLANNING BOARDS AND EMPLOYMENT COMMISSIONS WILL BE SET UP ON SYSTEM ALREADY ESTABLISHED, " WITH GOOD INITIAL RESULTS," IN ALGARVE.

- B. GRADUAL FORMATION OF NEW NON-PARTISAN STATE APPARATUS STAFFED WITH PERSONNEL WHO DEMONSTRATE SUFFICIENT "REVOLUTIONARY DYNAMISM."

C. DIALOGUE BETWEEN EACH LEVEL OF GOVERNMENT AND UNITED POPULAR ORGANIZATIONS, WITH LATTER PROGRESSIVELY GAINING POWER OF "CONTROL" OVER PERTINENT GOVERNMENT ORGANIZATIONS.

4. COMMENT: AFM DECLARATION PRESENTS MOST CANDID AND DETAILED PICTURE TO DATE OF ECONOMIC SITUATION. PROBLEMS, HOWEVER, ARE BLAMED ESSENTIALLY ON PROCESS OF "ELIMINATING ERRORS" OF PREVIOUS ECONOMIC SYSTEM AND ON CRISIS OF INTERNATIONAL CAPITALISM. AFM DECLARATION EMPHASIZED THAT ECONOMIC DECISIONS TO BE TAKEN WILL BE ACID TEST OF PRESENT COALITION GOVERNMENT'S ABILITY TO OVERCOME NATURAL DIVERGENCIES AND TO MARCH UNITED TOWARD "REAL OBJECTIVES" OF SOCIALISM.
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